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C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 000209

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E.O. 12958: DECL: 12/13/2014
TAGS: [AJ](#) [ENRG](#) [EPET](#) [IZ](#) [TU](#) [TX](#)
SUBJECT: TURKEY: AMBASSADOR MANN DISCUSSES GAS TRANSIT WITH
AZERBAIJAN, IRAQ AND TURKMEN GAS, AND OTHER ENERGY ISSUES
WITH BOTAS, BP AND CALIK ENERGY

REF: A. 07 BAKU 1483
[1](#)B. 07 ANKARA 2955

Classified By: Economic Counselor Dale Eppler for reasons 1.4 (B) and (D)

[1](#)1. (C) Summary. During a 14-hour stopover in Istanbul on January 28, U.S. Coordinator for Eurasian Energy Diplomacy Ambassador Steve Mann discussed a range of energy issues with BOTAS (state oil and gas pipeline company) General Manager Saltuk Duzyol, British Petroleum Turkey Director Tahir Uysal and Calik Energy General Manager Osman Saim Dinc. On gas transit, Mann stressed the importance of Turkey reaching a gas transit agreement with Azerbaijan. Duzyol said BOTAS is legally barred from making new contracts, including for future Azerbaijani gas volumes, and cannot resolve this issue unless the law is amended to allow them to enter into gas negotiations regarding Shah Deniz phase II volumes. On transit fees across Turkey, Duzyol said BOTAS would use a cost-based tariff methodology and he expected an agreement to be reached with Azerbaijan within a year. On Iraq gas, Duzyol confirmed the GOT interest in developing reserves and transiting them through Turkey, once Iraq's hydrocarbon's law is passed. On Turkmen gas, Mann highlighted the importance of new investment in Turkmenistan's gas sector and urged Duzyol to continue to support a trans-Caspian pipeline, rather than an alternate plan to ship compressed natural gas (CNG) across the Caspian Sea. Dinc told Mann that an ENI-Shell consortium for the Samsun-Ceyhan oil pipeline expected to be announced in late summer will make the project economically feasible. Dinc suggested we raise the level of our energy dialogue with the GOT to the Prime Ministry or President. On Baku-Tbilisi-Ceyhan (BTC) oil pipeline expansion, Duzyol complained the project is a money loser for BOTAS. End summary.

Turkish Law complicates Transit with Azerbaijan

[1](#)2. (C) During the meeting with BOTAS General Manager Saltuk Duzyol, Mann said reaching an agreement on transit terms across Turkey for Azerbaijan gas is an important driver for bringing Caspian gas to Europe. He urged the GOT to take

steps to resolve the transit impasse. According to Duzyol the next step to realizing the Intergovernmental Agreement (IGA) between Turkey, Greece and Italy would be a commercial gas agreement between Italian Edison, Greek DEPA and SOCAR for Shah Deniz (SD) Phase II volumes. At this point, BOTAS is barred by law from entering into new gas import contracts and currently there aren't any companies that could perform BOTAS' role. The 2001 natural gas market liberalization law prohibits any one company from owning more than 20 percent of imported natural gas volumes, a step towards dismantling BOTAS' gas monopoly. BOTAS has asked the government to amend the law to allow BOTAS to continue as national gas negotiator for Shah Deniz gas negotiations. (Note: the law does not address the GOT role in the gas market and so the GOT can attend IGA discussions Rome has proposed to host in April 2008. (Ref A) End note.) (Comment: In a separate meeting with Embassy officials, BP Turkey Natural Gas Sector Manager Oktay Sen said SD Phase II development also will require BP to have firm financial commitments from buyers. To date, there have been no contracts signed. Sen argued that buyer contracts are the most immediate concern for development of SD phase II gas. End comment.)

13. (C) Duzyol said the transit fee should not be an issue. BOTAS will use a cost-based tariff and he thought it could easily be finalized within a year. Duzyol strongly defended the IGA terms: up to 15% gas reserve formula for Turkey and net-back pricing scheme for this gas. (Ref B) Duzyol argued that high demand for natural gas in Turkey means that Turkey is more than a transit country for Azerbaijan gas, it is a consumer. He also argued that Turkey's location near Azerbaijan should make it a natural market for gas at a price less than Europe's. He said BOTAS pays more than \$30-\$40

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over the price at Baumgarten for Russian gas. Perhaps wanting to demonstrate that BOTAS relations with Azerbaijan are proceeding normally, Duzyol shared that BOTAS will re-open negotiations with Statoil regarding SD Phase I gas in April 2008 as stipulated by the terms of the existing contract.

Iraq gas

14. (C) Duzyol said that Turkey is very interested in helping the US develop Iraq's vast oil and gas resources and would like to partner with American companies. He said BOTAS has begun a feasibility study for a gas pipeline that would twin the existing Kerkuk-Yumurtalik oil pipeline. The GOT has geologic data about two large fields in Northern Iraq that he believes could produce 10 bcm in 5 to 6 years. Duzyol reaffirmed GOT policy to negotiate only with the Baghdad government and said the GOT would wait for passage of the Iraq hydrocarbon law before investing in Iraq. BP Director for Turkey Tahir Uysal confirmed GOT interest in Iraq. Uysal said BP is responding positively to a request by Energy Minister Guler to bring BP personnel working in Iraq (and Turkmenistan) to discuss their views on partnering with BOTAS and TPAO. Uysal said BP has spent \$10 million in Turkmenistan to date. Calik Energy General Manager also highlighted his company's interest in Iraq. Calik has submitted its qualifications for an Iraqi Ministry of Oil tender for oil service companies.

Turkmen gas, Nabucco and TCP

15. (C) In all three meetings, Ambassador Mann said new investment in Turkmenistan's gas sector was the key to finding volumes for a trans-Caspian route. All three interlocutors agreed that Turkey and the US should work together to convey the same message in favor of upstream investment to the Turkmen government. Duzyol said BOTAS had hired an UK-based firm Penspen to do an engineering study for Turkish part of the Nabucco pipeline. The line would start

outside Ankara at Ahibos (the same interconnection point with the Turkish grid as Blue Stream) and continue to the Bulgarian border. He added that RWE conducted a study which showed the feasibility of bringing 3 to 3.5 bcm of Turkmen gas for Nabucco via CNG (compressed natural gas) tankers across the Caspian. Duzyol said CNG tankers might be less threatening to Russia than a pipeline and therefore easier for Turkmenistan to do. Mann said analysis he had seen showed CNG tankers would be much less profitable than a pipeline and urged Duzyol to continue to support TCP.

Samsun-Ceyhan

¶16. (C) An upbeat Calik Energy General Manager Dinc told Mann an ENI-Shell consortium to supply Samsun-Ceyhan would be finalized by the end of this summer. While this consortium is only expected to supply 50-60% of the first phase total line capacity (1 million barrels/day), Dinc assured us this would be enough to make the project economically viable. Construction of the line would begin in 2009 and the first oil would flow in 2011, he predicted. Dinc ended the meeting with a suggestion to work with us to raise energy issues to higher levels with the GOT. Dinc argued Energy Minister Guler was "alone" in making energy policy and suggested we work to gain more support from President Gul and Prime Minister Erdogan regarding strategic energy issues.

BTC expansion

¶17. (C) In response to Mann's question, Uysal admitted that BTC capacity expansion plans have not yet been agreed by Azerbaijan President Aliiev, although BP fully expects Aliiev's approval. Duzyol complained about BOTAS' economic losses due

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to the expansion, arguing that the transit fee paid by BP does not cover the operational cost of the system. The spike in natural gas prices has substantially increased cost of operating the four pumping stations in Turkey. According to Duzyol, the transit fee was based on a \$18/barrel oil equivalent price and the market price is now approximately \$100/barrel. Duzyol said BOTAS is pursuing a remedy with BP but they were not hopeful.

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